

Administrative Memorandum

SUBJECT: Donations by REA-financed Cooperatives

REA-financed cooperatives are frequently asked to make donations and gratuities to various community undertakings not directly related or essential to the conduct of the cooperatives' affairs. In many instances boards of directors request advice from REA concerning such donations.

Donations from Loan Funds. Under no circumstances may any donations or gratuities be made from Government funds which are loaned to borrowers for specified purposes and which must be expended accordingly.

Donations and Gratuities from General Funds. Inasmuch as any donations or gratuities made by a cooperative must come out of the general funds of the cooperative, the following considerations should be observed as a basis for guidance to cooperative borrowers on questions of donations and gratuities:

First, the board of directors of a cooperative should recognize that it is not the owner of the cooperative's general funds but merely administers such funds as trustee for the members. All of the assets of an REA-financed cooperative, including its current assets, are pledged as security for the REA loans until such loans are repaid in full. In authorizing any expenditure out of general funds, a board of directors must keep in mind its accountability to both the cooperative members and REA. This is true regardless of how well a cooperative is doing financially. Authorizing expenditure of a cooperative's general funds for improper purposes may make directors individually liable for the sums involved.

Second, since an REA-financed cooperative is itself a nonprofit community enterprise, it should enjoy the good will of the rural communities where it operates without being expected to make cash donations to other nonprofit or charitable community activities. Contributions for such purposes properly come from individual members. As a community enterprise an REA-financed cooperative is justified in using its organizational facilities and its contacts with its members (through the cooperative personnel, newsletters, etc.) for promoting any nonpolitical activities for community welfare and in encouraging the active participation of

its members. REA has no objection to a cooperative making a nominal contribution to a community war chest or similar social or patriotic endeavor. However, since there is a question in some states as to whether a cooperative can legally make such a contribution, the board of directors would do well to obtain the opinion of the project attorney before taking such action. The total of such cash donations for any and all purposes should be held to a reasonable figure. As a suggestion, an allowance for such purposes in any one year should not be in excess of one percent (1%) of the net earnings of the previous year remaining after deductions of depreciation and of interest on the REA loans. The board of directors should, if possible, obtain the adoption of a motion to that effect at the annual meeting of the members so that there will be less likelihood of any questions being raised about the propriety of small donations authorized by the board.

Third, boards of directors of REA-financed cooperatives should be cautioned against committing the cooperative to any expenditures for such purposes as:

- a. Personal membership fees or dues for any director, officer or employee of the cooperative in any organization not directly related or essential to the conduct of the cooperative's affairs;
- b. Contributions to political organizations;
- c. Substantial presents to persons other than paid employees. Any present from a cooperative to its paid employees should be distributed equitably and the reason for such presents should be set forth in the board resolution authorizing the presents.

Fourth, a board should avoid committing the cooperative to membership and to membership fees or dues in any organization which the cooperative may not join except on the affirmative vote of the members.

Fifth, because of its community service nature, a cooperative is entitled to support from local papers without the necessity of paid advertising, except as and when required by law. Local papers benefit from the existence of a rural electric cooperative because it creates a demand for electrical equipment which results in additional advertising by appliance dealers.

Administrator